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Comments:
Dear Ms. Johnson, I am writing on behalf of The Marathon Bank in Winchester, VA to comment upon the proposed guidance entitled, "Concentrations in Commercial Real Estate Lending, Sound Risk Managmenet Practices." The Marathon Bank is a State Chartered member of the Federal Reserve. We oppose the proposed guidance in its current form for the following reasons: 1) The guidance fails to allow appropriate risk allocations within the classification of "commercial real estate loans." The guidance defines commercial real estate loans as those loans "secured by raw land, land development, construction (including 1-4 family residential construction), multi-family property and non-farm non-residential property where the primary or significant source of repayment is derived from rental income associated with the property (that is, loans for which 50 percent or more of the source of repayment comes from third party, non-affilitated, rental income)or the proceeds of the sale, refinancing, or permanent financing of the property." The guidance considers all these various types of real estate loans the same in terms of risk posed to the institution. In our bank's opinion, a loan secured by 1-4 family residential properties where the borrower will occupy the home and there exists documented proof of the permanent mortgage financing poses a much smaller risk than a loan for the development of industrial building lots where no take out facility exists. While regulatory reviews rate an institutions' ability to manage risk, no such consideration is given in this regulatory proposal. 2) If implemented, lenders would be encouraged to take collateral other than real estate to secure loans where real estate would be available as security and a stronger form of security. In community bank lending, real estate represents some of the strongest collateral available. However, to circumvent the proposed limits, banks would likely take other forms of collateral and esentially make loans that would pose a greater risk of loss in the event of default. 3) The proposal assumes all lenders are at the same risk if the proposed concentrations are exceeded. Some lenders may have no more risk of loss with 500% of their capital loaned against such real estate than another bank with 100% of capital loaned in the same manner. Markets differ, lending practices differ, tolerance for risk on a deal-by-deal basis differ between lending institutions. Why penalize those institutions with a stable record of commercial real estate lending when it would more appropriate to impose restrictions on those who have not built the

necessary infrastrucure to deal with large volumes of real estate loans? I respectfully encourage your reconsideration of this proposal in light of the above.